15 May 2015

Starcom Systems Plc
("Starcom", the "Company" or "the Group")

Final Results
For the Year Ended 31 December 2014

CHAIRMAN'S STATEMENT

The Company's revenues for the year ended 31 December 2014 were US$5.0m. Gross margin was 50% and net losses after tax were US$2.8m. As previously announced on 8 April 2015, a decision was made to change the accounting policy adopted in 2013 regarding "bill and hold" contracts. Therefore the Company agreed not to recognise revenue from such bill and hold transactions and to restate the audited accounts for 2013. Revenues for that year are now US$5.8m with US$1.8m of net loss after tax. In addition, revenues for 2014 do not reflect approximately US$4.8m of such contracts entered into towards the end of 2014. Towards the end of 2014 the Company invested in the manufacturing of inventory intended for the bill and hold customers. This inventory has now reverted to the Company following the changes in policy and as a consequence, has created a short term cash strain on finances. However, it is anticipated that the inventory will be realised through new sales during the remainder of 2015.

As a result of the changes in accounting policy relating to bill and hold contracts it has been necessary to make consequential adjustments to the interim accounts for the 6 month periods ended 30 June 2013 and 2014 which are referred to in the accompanying accounts. Revenues and profits for the relevant periods reflecting these changes show US$3,498,000 in 2013 and US$2,627,000 in 2014 with losses of US$89,000 and US$837,000 respectively.

The 2014 accounts also reflect a management decision to provide in full for a debt of US$770,000 due from the Ukrainian distributor who, due to the political situation in that country, has been forced to cease trading in Ukraine. This customer represented around 20% of Group sales during 2013. However he is seeking to re-establish his business elsewhere as soon as practicable and continues to promise eventual repayment of this debt. In addition the Company increased the provision for doubtful debts by US$250,000.

The various products that have been developed by the Company are described in more detail below but as can be seen from the results it has taken longer than expected to fully exploit their potential in the market. They are now fully developed and are being actively promoted globally. All have been well received by the market.

Helios

The Company believes that Helios is a world leader in advanced automatic vehicle location and fleet management systems. While such products do have considerable competition, the Helios Advanced Plus unit offers the complete solution for fleet management and allows configuration of complex single or multiple alerts as well as generating statistical and logistical reports. It also benefits from OBD-11 technology designed to monitor the vehicles fuel supply system thus enabling operators to monitor and control excessive fuel usage and save operational costs.

The Helios TT which was launched in 2014 addresses the needs of the motorcycle market in particular. It is a small unit that can be fully concealed from view and has low power consumption. Initial sales are promising for this product.

The Helios Hybrid is an innovative integration between the Helios standard unit and Iridium satellite module designed for remote locations without cellular coverage and sales have begun of this new product.

The recently announced endorsement by the major distributor of Porsche cars in Germany has provided an important reference site for the Helios units. As stated, the Helios is now exclusively recommended by the distributor as a retrofit tracking device in Germany for Porsche cars. While revenues from this source are not expected to be significant in the short term there is no doubt that the endorsement has assisted in discussions with other similar organisations in various countries.

Triton

The Triton R container tracking system provides ongoing monitoring of containers throughout its journey from factory to customer whether by dry storage or reefer, land or sea. The embedded GPS technology and cellular communication abilities provide precise information regarding the location, condition and temperature of the container in real time. For refrigerated containers carrying chilled or frozen cargo the sensors monitor the environmental temperature with an accuracy of 0.2 degrees centigrade. This product has undergone extensive tests by a major pharmaceutical company and by a large shipping forwarding agency and has successfully passed those tests. There is an increasing need for systems that can track any deviation in temperature and humidity conditions for perishable goods for both commercial and health protection reasons. Revenues are now beginning to flow for the Reefer product as a result of those tests.

Watchlock

Although Starcom has succeeded in making good sales of this revolutionary high security padlock over the last couple of years through its own sales network, our partner in this product, Mul-T-Lock, a member of the Assa-Abloy Group, has been jointly developing a new version of the padlock. This is a slimmer, cheaper product with a battery life of around three times the previous battery life. Mul–T-Lock has informed us that they have spent considerable investment re-engineering this product and are expecting to launch it through their worldwide network during the last quarter of 2015.

Kylos

Kylos is a portable tracking solution for locating merchandise assets, people and pets. It will send notifications about changes in predefined settings and trigger alerts to any irregular events or breaches. It uses GPS technology innovative built in sensors and is a compact, lightweight and waterproof unit. There are various models available for different uses. This product is now being marketing around the world. Although the market is highly competitive the Kylos is cost effective and practical and has attracted considerable interest.

Starcom Online

Many of our products provide online support and in return the Company receives regular recurring revenues ranging from US$1 to US$5 per month. During 2014 approximately US$1.3m of revenue was generated from this source, similar to the previous year.

FINANCIAL REVIEW

As mentioned above, after changing the accounting policy Group revenues for the year were US$5.0m, compared with US$5.8m for 2013.

Annual gross margin for the year was 50% showing an improvement compared with 39% on the restated accounts for 2013.

Operating loss increased to US$2.9m compared with an operating loss of US$900k in 2013. This increase in the operating loss was due to an increase in general and administrative expenses that include a US$1.3m for doubtful debts, the Ukrainian customer being the major one accounting for US$770,000, as well as increase in salaries reflecting the growth made during the year to the sales team. The Company has implemented cost reductions at the beginning of 2015 throughout its staff as well as moving sales and marketing teams largely to be remunerated by commissions. We can expect to see a decrease in salaries costs this year.

The Group balance sheet showed a decrease in trade receivables to US$1.9m as a result of the change in the bill and hold policy and the allowance for doubtful debts.

OUTLOOK

The products described above are now fully developed and although the Company continues to provide upgrade support and investigate improvements they are all ready for market. It has taken longer than expected to arrive at this stage but the Board believes that the potential for the products will begin to be fulfilled during the second half of 2015 and more particularly in 2016. Trading in the first quarter of 2015 has been slow but based on the level of enquiries and the interest in the new products referred to above it is anticipated that revenues for 2015 will exceed those achieved in 2014, although most will be achieved in the second half of the year. Cash flow has been impacted by the increase in inventory levels that were incurred during 2014 in anticipation of bill and hold contracts that have now been reversed. However all stock is current and saleable and as revenues flow during 2015 the position should improve. The Company is now considering a number of proposals already received regarding its cash requirements and a further announcement will be made regarding any decisions taken in the near future.

STARCOM Plc
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
U.S. Dollars in thousands

	Note	December 31, 2014	December 31, 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	6	395	270
Intangible assets	7	2,312	2,003
Total Non-Current Assets		2,707	2,273
CURRENT ASSETS:			
Cash and cash equivalents		103	49
Short-term bank deposit	5	101	136
Trade receivables	3C	1,943	(*)3,088
Other accounts receivable	3B	114	403
Inventories	4	3,382	(*)2,797
Income Tax Authorities		56	50
Total Current Assets		5,699	6,523
TOTAL ASSETS		8,406	8,796
EQUITY AND LIABILITIES			
EQUITY	13	4,368	(*)4,003
NON-CURRENT LIABILITIES:			
Long-term loans from banks, net of current maturities	11A	698	533
Total Non-Current Liabilities		698	533
CURRENT LIABILITIES:			
Short term bank credit		309	111
Short-term loans and current maturities of long-term loans from banks	9	331	354
Trade payables		2,167	(*)3,387
Other accounts payable	10	159	249
Shareholders	3A, 18	374	159
Total Current Liabilities		3,340	4,260
TOTAL LIABILITIES AND EQUITY		8,406	8,796

(*) Restated. See Note 2D.

STARCOM Plc

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. Dollars in thousands (except shares data)

	Note	Year Ended December 31 2014	2013
Revenues		5,005	(*) 5,844
Cost of sales	14	(2,499)	(*) (3,501)
Gross profit		2,506	2,343
Operating expenses:			
Research and development		(253)	(152)
Selling and marketing		(687)	(758)
General and administrative	15	(4,251)	(*) (2,325)
Operating loss		(2,685)	(892)
Other expenses	15A	(221)	-
Loss before financial expenses		(2,906)	(892)
Finance income	16A	233	2
Finance costs	16B	(145)	(1,014)
Net finance income (costs)		88	(1,012)
Loss before deferred income tax expense		(2,818)	(1,904)
Deferred income tax	8	- . -	116
Total comprehensive loss for the year		(2,818)	(1,788)
Attributable to :			
Owners of the Company		(2,818)	(1,785)
Non-controlling interest		-	(3)
Comprehensive income		(2,818)	(1,788)
Earnings per share:			
Basic and diluted earnings per share	17	(0.01)	(0.01)

(*) Restated. See note 2D

The accompanying notes are an integral part of the consolidated financial statements.

STARCOM Plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
U.S. Dollars in thousands

	Share Capital *	Premium on Shares	Capital Reserve	Capital Reserve in Regard to Share-Based Payment Transactions	Accumulated Earnings	Non-controlling Interest	Total
Balance as of January 1,2013	-	28	447	-	2,269	(6)	2,738
Proceeds from issued share capital, net of mobilization costs (see Note 13c)	-	2,939	-	-	-	-	2,939
Exchange of Keren Hagshama shares (see Note 13c)	-	349	(358)	-	-	9	-
Share based payment (see Note 13d)	-	(195)	-	309		-	114
Comprehensive loss for the year	-	-	-	-	(*) (1,785)	(*) (3)	(1,788)
Balance as of December 31 2013	-	3,121	89	309	484	-	4,003
Proceeds from issued share capital, net of mobilization costs (see Note 13c)	-	3,119	-	-	-	-	3,119
Share based payment (see Note 13d)	-			64			64
Comprehensive loss for the year	-	-	-	-	(2,818)	-	(2,818)
Balance as of December 31 2014	-	6,240	89	373	(2,334)	-	4,368

The accompanying notes are an integral part of the consolidated financial statements.

(*) Amount less than 1 thousand.

(**) Restated. See note 2D

STARCOM Plc
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. Dollars in thousands

	Year Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss for the year	(2,818)	(*) (1,788)
Adjustments to reconcile net profit to net cash used in operating activities:		
Depreciation and amortization	461	234
Interest expense and exchange rate differences	(146)	289
Equity settled option- based payment expense	64	114
Expiration of repurchase option	-	89
Deferred income tax expense		
Capital loss	(19)	3
Changes in assets and liabilities:		
Increase in inventories	(585)	(*)(1,561)
Decrease in trade receivables	1,133	(*)794
Decrease in other accounts receivable	289	152
Increase in Income Tax Authorities	-	(116)
Increase in deferred issuance costs	-	(72)
Increase (Decrease) in trade payables	(1,220)	(*)278
Increase (decrease) in other accounts payable	(75)	80
Net cash used in operating activities	(2,916)	(1,504)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(247)	(81)
Proceeds from sales of property, plant and equipment	71	23
Decrease in long-term bank deposits	-	47
Increase in short-term deposits	45	(69)
Cost of intangible assets	(700)	(607)
Net cash used in investing activities	(831)	(687)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (Repayment of) short-term bank credit, net	197	(97)
Short-term loan from a bank, net	87	(27)
Repayment from (Proceeds to) shareholders	204	(3)
Proceeds from receipt of long-term loans	737	262
Repayment of long-term loans	(543)	(1,134)
Consideration from issue of shares, net	3,119	3,121
Net cash provided by financing activities	3,801	2,122
Increase (Decrease) in cash and cash equivalents	54	(69)
Cash and cash equivalents at the beginning of the year	49	118
Cash and cash equivalents at the end of the year	103	49
Appendix A – Additional Information		
Interest received during the year	-	2
Interest paid during the year	(58)	(112)

(*)Restated. See note 2D.

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

a. The Reporting Entity

1. Starcom plc ("the Company") was incorporated in Jersey on November 28, 2012. During February 2013 the Company signed an asset purchase agreement with Starcom Systems S.A., a Panamanian company that specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets and engages in production, marketing, distribution, research and development of G.P.S. systems.

   In accordance with the agreement, Starcom Systems S.A. sold to the Company for a nominal consideration its business and assets, including its holdings in Starcom G.P.S. Systems Ltd., an Israeli company that engages in the same field.
   Subsequent to completion of the transaction, the Company transferred to an additional company in Jersey, Starcom Systems Limited, its entire activity, except for its holdings in Starcom G.P.S. Systems Ltd., for a nominal consideration. Thus, the Company became a holding company, holding 100% of Starcom Systems Limited and approximately 97% of Starcom G.P.S. Systems Ltd., where Company operations are conducted.

   During the reported period, the Company acquired the remaining 3% of Starcom G.P.S. Systems Ltd.

   Since all the assets, liabilities and operations have been transferred from Starcom Systems S.A. to the Company, it is appropriate in these Audited Consolidated Financial Statements to present the Company's operations as if the abovementioned transaction always existed, while adjusting the capital structure to the Company capital structure.

   On February 19, 2013, the Company issued 18,783,333 Ordinary Shares to each of the controlling interests, pro-rata to their holdings in the Company.
   On February 27, 2013 the Company's shares were admitted to trading on London's Stock Exchange Alternative Investment Market ("AIM") following a successful Initial Public Offering ("IPO") raising £2.72 ($4.09) million before expenses, reflecting a Company valuation of £14.2 ($21.53) million.
   The Company issued 13.6 million new shares at £0.2 per share to new investors.
   The Company issued upon admission an additional 1,150,000 Ordinary Shares to a lender to the Company – "Keren Hagshama Ltd" (hereinafter: Keren Hagshama).
   On February 3, 2014, the Company issued 13,333,333 Ordinary Shares raising £ 2 million before expenses.
   During February 2014 the Company issued to Northland Capital Partners 492,533 Options for purchase of Company shares at the exercise price of £ 0.15 per share.

2. Address of the Company's registered office in Jersey of Starcom Systems Limited is:
   13-14 Esplanade, St Helier, Jersey JE1 1BD.

3. Address of the official Company office in Israel of Starcom G.P.S. Systems

Ltd. is:
33 Jabotinsky St., Migdal Hateomim 1, Ramat Gan, Israel.

NOTE 2A - BASIS OF PREPARATION (cont.)

b. Definitions in these financial statements:

1. International Financial Reporting Standards (hereinafter: "IFRS") – Standards and interpretations adopted by the International Accounting Standards Board (hereafter: "IASB") that include international financial reporting standards (IFRS) and international accounting standards (IAS), with the addition of interpretations to these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.
2. The Company - Starcom Plc.
3. The subsidiaries - Starcom G.P.S. Systems Ltd. And Starcom Systems Limited.
4. Starcom Jersey – Starcom Systems Limited.
5. Starcom Israel – Starcom G.P.S. Systems Ltd.
6. The Group – Starcom Plc. and the Subsidiaries.
7. Related party - As determined by International Accounting Standard No. 24 in regard to related parties.

Note 2A - BASIS OF PREPARATION

a. Basis of preparation:

The Company's operations are the continuation of the operations of Starcom Systems S.A., (including its holdings in Starcom Israel) held by the same shareholders as the Company. In February 2013, Starcom Systems S.A. transferred all its operations, assets and liabilities to the Company without consideration.

Since all the assets, liabilities and operations have been transferred from Starcom Systems S.A. to the Company, it is appropriate in these financial statements to consolidate the relevant data of Starcom Systems S.A. and the subsidiary for the year ending December 31, 2014.

The relevant data has been consolidated so that the results, net assets, share capital and accumulated earnings of Starcom Systems S.A. and the subsidiary are aggregated, with intercompany balances and transactions eliminated.

b. Declaration in regard to implementation of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") and related clarifications published by the International Accounting Standards Board ("IASB").

c. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are stated at fair value.

d. Operating Turnover Period

The ordinary operating period turnover for the Group is a year. As a result, the current assets and current liabilities include items that are expected and intended to be realized at the end of the ordinary operating turnover period for the Group.

e. Functional and Presentation Currency

The consolidated financial statements are presented in U.S. dollars (hereinafter: "dollars") that is the functional currency of the Group and is rounded to the nearest thousand, except when otherwise indicated.
The dollar is the currency that represents the economic environment in which the Group operates.
The Group's transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars. All transaction gains and losses from remeasurement of monetary assets and liabilities denominated in non-dollar currencies are reflected in the statements of comprehensive income as financial income or expenses, as appropriate.

NOTE 2B - USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Upon formulation of accounting estimates used in preparation of the Group financial statements, management is required to make assumptions in regard to circumstances and events that are significantly uncertain. Management arrives at these decisions based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgment in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following Note:
Note 7 – Capitalization of development costs and amortization of these costs.

Information about assumptions and estimations regarding depreciation that have significant risk of resulting in a material adjustment is included in the following Notes:
Note 7 – Calculation of amortization.
Note 8 – Utilization of tax losses.
Note 11B – Calculation of the fair value of the PUT option.
Note 11C – Calculation of a loan from a non-controlling interest.
Note 13d – Options to related parties.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

All intra-Group transactions, balances, income and expenses of the companies are eliminated on consolidation.
See also Note 2Aa.

b. Foreign currency and linkage basis

Balances stated in foreign currency or linked to a foreign currency have been included in the consolidated financial statements according to the prevailing representative exchange rates at the balance sheet date. Balances linked to the Consumer Price Index in Israel are included in accordance with the Index published prior to balance sheet date. Linkage and exchange rate differences are included in the statement of comprehensive income when incurred.

	December 31,	
	2014	**2013**
CPI (in points) *	124.3	122.4
Exchange Rate of U.S. $ in NIS	3.889	3.471

	Year Ended December 31,	
	2014	**2013**
Change in CPI	1.5%	1.8%
Change in Exchange Rate of U.S. $	12%	(7.02%)

* Base Index 2002 = 100.

c. Financial instruments

(i) Non-derivative financial assets
The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classified non-derivative financial assets into the following categories: Financial assets at fair value, through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

c. **Financial instruments (cont.)**

(i) Non-derivative financial assets (cont.)

Financial assets at fair value through profit or loss:
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

(ii) Non-derivative financial liabilities
The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

c. **Financial instruments (cont.)**

(iii) Compound financial instruments
Compound financial instruments issued by Starcom Israel comprised: an interest bearing loan for which shares were issued to the lender. In addition, the Company maintained an option to repurchase these shares.

The purchase option component was recognized initially at its fair value using a binomial calculation.

The liability component was recognized initially at its fair value as the gap between fair value of Company assets and fair value of shareholders' equity.

The equity component was recognized initially as the difference between the loan amount plus the purchase option component and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

e. Share capital

Ordinary shares:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

f. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	7 – 15
Vehicles	15
Laboratory equipment	15

f. Property, plant and equipment (cont.)

Leasehold improvements are depreciated by the straight-line method over the term of the lease, ten year period, (including option terms) or the estimated useful lives of the improvements, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

At each balance sheet date, the Group examines the residual value, the useful life and the depreciation method it uses. If the Group identifies material changes in the expected residual value, the useful life or the future pattern of consumption of future economic benefits in the asset that may indicate that a change in the depreciation is required, such changes are treated as changes in accounting estimates. In the reported periods, no material changes have taken place with any material effect on the financial statements of the Group.

g. Intangible assets: Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if developments costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

At each balance sheet date, the Group reviews whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of the intangible assets. When such indicators of impairment are present, the Group evaluates whether the carrying value of the intangible asset in the Group's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

h. Short-term deposit

Deposits with maturities of more than three months but less than one year are included in short-term deposits.

i. Leases

(1) Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.
Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(2) Determining whether an arrangement contains a lease
At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:
● The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
● the arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental rate.

j. Inventories

Inventories are stated at the lower of cost or market value.
Cost is determined using the "first-in, first -out" method.
Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of loss recognition, a new lower cost basis for that inventory is established.

k. Impairment in value of assets

During every financial period, the Group examines the book value of its tangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Group examines the realization value of the designated asset. In the event that the realization cannot be measured for an individual asset, the Group estimates realization value for the unit where the asset belongs. Joint assets are assigned to the units yielding cash on the same basis. Joint assets are designated to the smallest groups of yielding assets for which one can identify a reasonable basis that is consistent to the allocation.

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k. Impairment in value of assets (cont.)

The realization value is the higher of net sale price of the asset as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset and its realization value at the end of its useful life.
In the event that the book value of the asset or cash-yielding unit is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

In the event that prior devaluation of an asset is nullified, the book value of the asset or of the cash-yielding unit is increased to the estimated current fair value, but not in excess of the asset or cash-yielding unit book value that would have existed had there not been devaluation. Such nullification is recognized immediately in the statements of comprehensive income.

l. PUT Option

The Group classifies in the long-term liabilities category the PUT Option liability for reacquisition of shares to be issued. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

m. Revenue recognition

The Group generates revenues from sales of products, which include hardware and software, software licensing, professional services and maintenance. Professional services include mainly installation, project management, customization, consulting and training. The Group sells its products indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users, and through its direct sales force.

Revenue from products and software licensing is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is

fixed or determinable and collectability is probable.
Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

n. Allowance for doubtful accounts

The Group evaluates its allowance for doubtful accounts on a regular basis through periodic reviews of the collectability of the receivables in light of historical experience, adverse situations that may affect the repayment abilities of its customers, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Group performs ongoing credit evaluations of its customers and generally does not require collateral because (1) management believes it has certain collection measures in-place to limit the potential for significant losses, and (2) because of the nature of its customers that comprise the Group's customer base. Receivables are written off when the Group abandons its collection efforts. An allowance for doubtful accounts is provided with respect to those amounts that the Group has determined to be doubtful of collection.

o. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

p. Provisions

Provisions are recognized when the Group has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Group being required to provide additional benefits in order to settle this obligation. Provisions are determined by capitalization of projected cash flows at a rate prior to taxes that reflects the current market preparation for the money duration and the specific risks for the liability.

q. Employee benefits

The Group has several benefit plans for its employees:

1. Short-term employee benefits -
   Short-term employee benefits include salaries, vacation days, recreation and deposits to the National Insurance Institute that are recognized as expenses when rendered.
2. Benefits upon retirement -
   Benefits upon retirement generally funded by deposits to insurance companies and pension funds are classified as restricted deposit plans or as restricted benefits.
   All Group employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law (Israel), whereby the Group pays fixed amounts without bearing any legal responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified as for benefits or for compensation, and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

r. Finance income and expenses

Finance income includes interest in regard to invested amounts, changes in the fair value of financial assets presented at fair value in the statements of comprehensive income and gains from changes in the exchange rates and interest income that are recognized upon accrual using the effective interest method.

Finance expenses include interest on loans received, changes in the time estimate of provisions, changes in the fair value of financial assets presented at fair value in the statements of comprehensive loss and losses from changes in value of financial assets. Gains and losses from exchange rate differences are reported net. Exchange rate differences in regard to issuance of shares are charged to equity.

s. Taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same Tax Authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Since there is uncertainty in regard to existence of taxable revenues in the near future, a deferred tax asset was not recognized.

s. Taxes (cont.)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit (taxes on income) will be realized.

t. Basic and Diluted Earnings per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year.

Diluted earnings per share is computed based on the weighted average number of common shares outstanding during each year, plus dilutive potential common shares considered outstanding during the year.

u. Statement of cash flows

The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Group are included in the cash flows in current operations.

v. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

w. Segment reporting

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax.

x. Standards issued but not yet effective

The Standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these Standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 "*Financial Instruments"* which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group is evaluating the possible impact of IFRS 9 (including all its phases) but is presently unable to assess its effect, if any, on the financial statements.

x. Standards issued but not yet effective (cont.)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar."
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

The impact on the Company's financial statements of the future Standards, amendments and interpretations is still under review, but the Company does not currently expect any of these changes to have a material impact on the results or the net assets of the Company.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue Standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new Standard on the required effective date.

NOTE 2D - RESTATEMENT OF THE FINANCIAL STATEMENTS FOR THE PREVIOUS REPORTED PERIODS

The Company restated its financial statements as of December 31, 2013 in order to reflect a correction regarding revenue recognition, cost of sales and inventory.

a. Effect of the restatement in regard to an error in the statement of financial position items:

	As of December 31, 2013		
	As Previously Reported	**Effect of the Restatement**	**After the Restatement**
Trade receivables	6,196	(3,108)	3,088
Inventories	2,146	651	2,797
Deferred tax assets	(210)	210	- . -
Trade payables	(3,146)	(241)	(3,387)
Equity	(6,491)	2,488	(4,003)

b. Effect of the restatement in regard to an error on the profit and loss and other comprehensive income

	Year Ended December 31, 2013		
	As Previously Reported	Effect of the Restatement	After the Restatement
Revenues	9,016	(3,172)	5,844
Cost of sales	(3,952)	451	(3,501)
Gross profit	5,064	(2,721)	2,343
General and administrative	(2,348)	(23)	(2,325)
Operation profit (loss)	1,806	(2,698)	(892)
Profit (Loss) prior to deferred taxes	794	(2,698)	(1,904)
Deferred Income taxes	(94)	210	116
Total comprehensive loss for the period	700	(2,488)	(1,788)
Attributed to:			
Owners of the parent company	703	(2,488)	(1,785)
Non- controlling interest	(3)	-	(3)

c. Effect of the restatement in regard to an error on the cash flows:
There is no effect on the cash flows from current operations, from investments and from financing.

NOTE 3A - SHAREHOLDERS

Credit balances are linked to the New Israel Shekel ("NIS") and the Israeli Consumer Price Index ("CPI").

NOTE 3B - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2014	2013
Advances to suppliers	24	321
Government institutions	90	82
	114	403

NOTE 3C - TRADE RECEIVABLES

	December 31	
	2014	2013
Group receivables	2,446	(*) 3,296
Net of allowance for doubtful accounts	(503)	(208)
	1,943	3,088

(*) Restated. See note 2D.

NOTE 4 - INVENTORIES

December 31	
2014	2013

Raw materials	905	1,384
Finished goods	2,477	1,413
	3,382	2,797

(*) Restated. See note 2D.

NOTE 5 - SHORT-TERM BANK DEPOSIT

The deposit sums of $101 and $136 for the years ended December 31, 2014 and 2013, respectively, serve as a security deposit for repayment of a long-term bank loan. In accordance with terms of the loan, the deposit constitutes approximately 15% of the loan balance. The deposit bears yearly interest at the rate of 1%.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of January 1 2014	117	106	66	80	130	499
Additions during the year	28	4	-	-	235	267
Decrease	-	-	-	-	(130)	(130)
Balance as of December 31 2014	145	110	66	80	235	636
Accumulated Depreciation:						
Balance as of January 1 2014	82	38	31	21	57	229
Depreciation during the year	13	8	9	6	34	70
Decrease	-	-	-	-	(58)	(58)
Balance as of December 31 2014	95	46	40	27	33	241
Net book value as of December 31 2014	50	64	26	53	202	395

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET (cont.)

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of January 1 2013	88	95	66	39	175	463
Additions during the year	29	11	-	41	-	81
Decrease	-	-	-	-	(45)	(45)
Balance as of December 31 2013	117	106	66	80	130	499

Accumulated

Depreciation:						
Balance as of January 1 2013	61	29	21	16	51	178
Depreciation during the year	21	9	10	5	25	70
Decrease	-	-	-	-	(19)	(19)
Balance as of December 31 2013	82	38	31	21	57	229
Net book value as of December 31 2013	35	68	35	59	73	270

NOTE 7 - INTANGIBLE ASSETS

a. Composition:

	Cost of Materials (including overhead costs)	**Direct Labour**	**Total**
Cost:			
Balance as of January 1 2014	1,502	819	2,321
Additions during the year	538	162	700
Balance as of December 31 2014	2,040	981	3,021
Accumulated Depreciation:			
Balance as of January 1 2014	224	94	318
Amortization during the year	110	79	189
Balance as of December 31 2013	334	173	507
Decrement in value of R&D assets	(121)	(81)	(202)
Net book value as of December 31 2014	1,585	727	2,312

	Cost of Materials (including overhead costs)	**Direct Labour**	**Total**
Cost:			
Balance as of January 1 2013	1,097	617	1,714
Additions during the year	405	202	607
Balance as of December 31 2013	1,502	819	2,321
Accumulated Depreciation:			
Balance as of January 1 2013	127	27	154
Amortization during the year	97	67	164
Balance as of December 31 2013	224	94	318
Net book value as of December 31 2013	1,278	725	2,003

b. Detail of remaining life of instruments as of December 31, 2014:

Instrument	Cost	Remaining Useful Life (in years)
Set 1	385	6.75
Set 2	238	6.75
Set 3	203	7.5
Set 4	207	7.5

Set 5	138	8.5
Set 6	120	9
Set 7	186	9
Set 8	423	9
Set 9	254	9
Set 10	37	10
Set 11	121	10
Total	2,312	

The expenditure capitalized includes the cost of materials and direct labour that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.
Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.
See also Note 2C g.

NOTE 8 - TAXES ON INCOME

a. Israeli taxation
Taxable income of Starcom Israel is subject to tax at the rate of 26.5% for the year 2014 and 25% for the year 2013.

On August 5, 2013, the "Knesset" (the Israeli parliament) issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, increasing the corporate tax rate from 25% to 26.5%.

b. **Tax Benefits from the Law for Encouragement of Capital Investments, 1959**

The Company presents its financial statements to the tax authorities as an Approved Enterprise. In the framework of the Law for Change of Priorities, as abovementioned, an increase in tax rates was passed, commencing with 2014 and thereafter, on revenues from a preferred plant, as stated in the Law for Encouragement of Capital Investments, 1959 (hereinafter: "The Encouragement Law") for a preferred company. An eligible company in Development Area A is entitled to a tax rate of 9% (instead of 7% during 2013) and to a tax rate of 6% from 2015 and thereafter. In an area that is not Development Area A, the tax rate will be 16% (instead of 12.5% during 2013 and 12% from 2015 and thereafter).

Concurrently, the tax rate on a dividend, for distribution from January 1, 2014, the source of which is preferred income as stated in the Encouragement Law, will rise to 20% (instead of 15%).

c. Detail of tax expense:

	Year Ended December 31, 2014	2013
Deferred taxes	- . -	116

There was no recording of deferred taxes in regard to losses. Therefore, the tax expense is zero, without taking into account the amount of the loss (results) in the financial statements.

NOTE 9 - SHORT-TERM AND CURRENT MATURITIES OF LONG-TERM LOANS FROM BANKS

	December 31	
	2014	**2013**
Short-term loan	88	-
Current maturities of long-term loans	243	354
	331	354

NOTE 10 - OTHER ACCOUNTS PAYABLE

	December 31	
	2014	**2013**
Employees and payroll accruals	148	226
Accrued expenses	11	23
	159	249

NOTE 11A - LONG-TERM LOANS FROM BANKS

1. Composition:

	December 31	
	2014	**2013**
Long-term liability	941	887
Less: current maturities	(243)	(354)
	698	533

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2014 are as follows:

	Amount
First year	243
Second year	253
Third year	240
Fourth year and after	205
	941

NOTE 11A - LONG-TERM LOANS FROM BANKS (cont.)

3. Additional information regarding long-term loans:

Loan #	**Date Received**	**Amount Received NIS (U. S. dollars)**	**Annual Interest Rate**	**Loan Terms and Maturity Dates**	**Interest Payment Terms**
1.	January 22, 2014	1,900 ($ 543)	Prime + 1.8%	55 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
2.	January 28, 2014	675 ($193)	Prime + 0.8%	60 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
3.	August 8, 2012	1,200 ($ 300)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 9 September 2012
4.	September 20, 2013	950 ($ 270)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 20 October 2013

NOTE 11B - PUT OPTION

1. Starcom S.A. signed a PUT option agreement on December 30 2011.

   In accordance with an agreement between the parties, Starcom S.A. received an amount of $225 thousand from a third party (hereinafter: "Top Alpha") as consideration for issuance of shares that would give to Top Alpha 3.3% holdings of Starcom S.A. while Top Alpha would have the option, until July 2013, to put the shares back to Starcom S.A. for the original purchase price of $225 thousand.
   In actuality, the Company did not issue the shares and, therefore, these amounts were recorded on the day received in the financial statements as receipts on account of shares.

NOTE 11B - PUT OPTION (cont.)

The options were recognized initially at fair value. Subsequent to initial recognition, this financial liability was measured at amortized cost using the effective interest method.

2. In July 2012, the funds were returned to Top Alpha in accordance with their decision, and the rights that they had for shares were cancelled.

NOTE 11C - LONG-TERM LOAN FROM NON-CONTROLLING INTEREST

During April 2012, Starcom Israel received a loan through Keren Hagshama in the amount of $1 million for a period of four years that will be repaid in four equal installments of principal and interest at the end of every year. The loan bears monthly interest at the rate of 0.8%. In addition Starcom Israel received $50 thousand through Keren Hagshama as an investment in the share capital of Starcom Israel.
The Company has an option for early repayment as well as to lengthen the loan period in a year.
In consideration for the loan, the Company will transfer an amount of shares contingent upon the duration of the loan period and whether the Company will offer shares in an Initial Public Offering (IPO), as detailed in the agreement.

Upon completion of registration of shares the Company has an option to repurchase the public Company shares within a six month period commencing from the Initial Public Offering (IPO) date in accordance with the realization price per ordinary share as computed in accordance with the Company valuation of $18 million. In the event that the public Company valuation will exceed $23 million, the realization price will be higher, as detailed in the agreement.

As of the loan grant date, the Company transferred 3.3% of Starcom Israel share capital to Keren Hagshama.
The Company paid $50 thousand as fees for mobilization of a loan through Keren Hagshama.

The loan was evaluated and divided to different components by independent appraisers as follows (in thousands):
Repurchase option - $89
Liability (short and long term) - $670
Capital reserve - $469.
The mobilization costs were allocated according to the components ratio.
The loan was assessed assuming a fifty-percent likelihood that the loan will be repaid within a year and fifty percent likelihood according to the original terms.
Effective annual interest rate was determined as 42.46%.
On February 27, 2013 Starcom Israel and the Company agreed with Keren Hagshama pursuant

to the Hagshama agreement that upon admission the Company will issue 1,150,000 Ordinary Shares, that present 2% of the Company shares before the IPO, to Keren Hagshama and repay $1,150 thousand which is composed of $ 1,000 loan principal, interest in the amount of $100 thousand and expenses in regard to clearing of the loan in the amount of $50 thousand. Keren Hagshama will transfer its respective shares in Starcom Israel to the Company, following which no further rights or obligations exist under the Hagshama Loan Agreement save as set out below.
As a result of the early repayment, the Company recorded financial expenses in the amount of approximately $340 thousand.
The Ordinary Shares are subject to limitations on sale for a period of six months from admission in which the Company is entitled (but not obliged) to acquire Keren Hagshama Ordinary Shares.
This option expired on August 26, 2013 and the Company did not acquire Keren Hagshama Ordinary Shares.

NOTE 12 - COMMITMENTS AND CHARGES

a. Operating lease commitments:

1. Starcom Israel rents offices and signed operating leases commencing March 2011 for a period of five years with an option for five additional years. Rent expenses for the years ended December 31, 2014 and 2013 were in the amounts of $146 thousand and $145 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2014:

Not later than one year	134
Later than one year and not later than five years	22
	156

2. Starcom Israel signed operating leases for rental of vehicles for a period of 36 months. Rent expenses for the vehicles for the years ended December 31, 2014 and 2013 were in the amounts of $41 thousand and $77 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2014:

Not later than one year	36
Later than one year and not later than four years	27
	63

b. Other commitments:
During December 2009 Starcom Israel signed a cooperative agreement with Multilock Ltd. (hereinafter: "Multilock") for development, production and marketing of a consolidated system that includes the operating system of Multilock contained in the follow-up system of the Group.

In order to produce the consolidated system, each side obligated to sell to his counterpart, at a price equal to the cost of SAP with the addition of 15%, the component that he manufactures.

Cost of SAP is the cost of a completed product, including direct and indirect production costs but not including research and development costs or general and administrative expenses. Thus, cost of a consolidated system is the SAP of the Company plus the SAP of Multilock with the addition of 15%. The system was completed and is marketed under the logo Watchlock. Sales commenced in March 2012. The Group capitalized the research and development costs relevant to development of the system.

Price of the marketed system will be uniform and will be determined in advance by both parties. At the end of each quarter, each company pays $20 for each device sold by the company. Starcom and Multilock are currently renegotiating the terms of the mutual payments.

c. A lawsuit was filed against the subsidiary in Israel regarding breach of an agreed compromise settled in 2012 for material amount, the Company filed a counterclaim. According to legal advisors to the Company, chances of the suit to be accepted are slim whilst chances for counterclaim are reasonable. The Company did not provide for the abovementioned claim.

d. Charges:

1. A first class current general charge in favor of a bank was placed on all the subsidiary's assets.
2. A charge in favor of a bank was placed on subsidiary vehicles.
3. A first class charge in favor of a bank was placed on all subsidiary bank accounts.

NOTE 13 - SHARE CAPITAL

a. Composition – common stock of no par value, authorized – 118,500,000 shares; issued and outstanding –84,433,332 shares as of December 31 2014.

b. A Company share grants to its holder voting rights, rights to receive dividends and rights to net assets upon dissolution.

c. **Issue of Shares and Mobilization of Capital**
On February 19, 2013, the Company issued 18,783,333 Ordinary Shares to each of the controlling interests pro-rata to their holdings in the Company.
On February 27, 2013, the Company's shares were admitted to trading on London's Stock Exchange Alternative Investment Market ("AIM") following a successful Initial Public Offering ("IPO") raising £2.72 ($4.09) million before expenses.
The Company issued 13.6 million new shares at £0.2 per share to new investors.
In the framework of the IPO, the Company signed agreements with an advisor, brokers and others, including granting of Options (see below).
The Company issued upon admission an additional 1,150,000 Ordinary Shares to Keren Hagshama (see also Note 11c).
On February 27, 2013 the Company's shares were admitted to trading on London's Stock Exchange Alternative Investment Market ("AIM") following a successful Initial Public Offering ("IPO") raising £ 2.72 ($ 4.09) million before expenses, reflecting a Company valuation of £ 14.2 ($ 27.53) million.

d. **Options issued**

1. During February 2013, the Company issued to its directors 1,422,000 Options for purchase of 1,422,000 of Company shares at the exercise price of £0.2 per share. The Options will be vested in three equal parts during three intervals commencing February 2013 and will expire at the end of ten years. Total expenses recorded in regard to these Options in the statement of comprehensive income for the reported period amounted to $64 thousand (2013: $114 thousand).
2. During February 2013, the Company issued to professional consultants and brokers 1,610,500 Options at the exercise price of £0.2 per share. The Options are fully vested. Approximately one million Options will expire in February 2018 and approximately 600 thousand expired in February 2014. Fair value of the Options that was recorded as an offset against receipts from issuance is in the amount of $195 thousand.

NOTE 14 - COST OF SALES

	Year Ended December 31, 2014	2013
Purchases	2,957	(*) 4,898
Amortization	127	164
Increase in inventory	(585)	(*)(1,561)
	2,499	3,501

(*) Restated. See note 2D

NOTE 15 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31, 2014	2013
a. Salaries and related expenses	1,521	1,025
Professional services (1)	661	566
Office rent and maintenance	275	393
Depreciation	70	70
Doubtful accounts and bad debts	1,322	32
Other	402	262
	4,251	2,325

(1) Including share based payment in the amount of $64 and $114 thousand for the year ended December 31, 2014 and 2013, respectively.

	Year Ended December 31, 2014	2013
b. Cost of defined contribution plans	177	147

c. Average Number of Staff Members by Category:

	Year Ended December 31, 2014	2013
Sales and marketing	6	5
Research and development	4	3
General and administrative	16	11
	26	19

NOTE 15A - OTHER EXPENSES

	Year Ended December 31, 2014	2013
Decrement in value of R&D assets	(202)	- . -
Capital loss from sale of fixed assets	(19)	- . -
	(221)	- . -

NOTE 16A - FINANCE INCOME

	Year Ended December 31, 2014	2013
Interest from bank	-	2
Exchange rate differences	233	-
	233	2

NOTE 16B - FINANCE COSTS

	Year Ended December 31, 2014	2013
Exchange rate differences	-	439
Interest to non-controlling interest	-	338

Expiration of repurchase option	-	89
Interest to banks and others	87	56
Bank charges	50	53
Interest to suppliers	8	39
	(145)	(1,014)
Net finance costs	88	(1,012)

NOTE 17 - EARNINGS PER SHARE

Weighted average number of shares used in computing basic and diluted earnings per share:

	Year Ended December 31, 2014	2013
Number of shares	84,433,332	71,100,000

NOTE 18 - RELATED PARTIES

a. The related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (22.64%), Mr. Uri Hartman (22.64%), Mr. Doron Kedem (22.64%).

b. Balances: *

	December 31 2014	2013
	(374)	(159)

* See also Note 3A.

c. Transactions:

	Year Ended December 31, 2014	2013
Key management compensation:		
Short-term employee benefits	645	95
Post-employment benefits	-	76
Total salaries and related expenses for shareholders	645	171

d. The Company entitled the related parties mentioned in Note 18a monthly management fees. The shareholders waived their right for management fees for the period of October to December, 2013 in light of the market situation.

e. Directors and the shareholders of the Group are each entitled to benefits, in addition to salaries, that include a vehicle, meals, cellular phones and a professional enrichment fund. Concurrently, the Group deposits for them amounts in a restricted benefit plan for implementation upon completion of their employment.

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

a. **Financial Risk Factors:**
The Group's operations expose it to a variety of financial risks, including: market, currency, credit and liquidity risks. The comprehensive Group plan for risk management focuses on the fact that it is not possible to predict financial market behavior and an effort to minimize possible negative effects on Company financial performance.

In this Note, information is stated in regard to Group exposure to each of the risks abovementioned and the handling of these risks. Risk management and capital are handled by the Group management that identifies and evaluates financial risks.

1) **Exchange rate risk**

Group operations are exposed to exchange rate risks arising mainly from exposure of loans from banks, suppliers and others that are linked to the NIS.

2) Credit risk

Credit risks are handled at the Group level. These risks arise from cash and cash equivalents, bank deposits and unpaid receivable balances. Cash and cash equivalent balances of the Group are deposited in an Israeli banking corporation. Group management is of the opinion that there is insignificant credit risk regarding these amounts.

3) **Liquidity risks**

Cautious management of liquidity risks requires that there be sufficient amounts of cash to finance operations. Group management currently examines projections regarding liquidity surpluses deriving from cash and cash equivalents. This examination is based on projected cash flows, in accordance with procedures and limitations determined by the Group.

b. **Linkage terms of financial instruments:**

Group exposure to Index and foreign currency risks, based on par value, except for derivative financial instruments is as follows:

	December 31, 2014				
	NIS		**U.S. Dollar**	**Euro**	**Total**
	Unlinked	**Variable Interest**	**Unlinked**		
Financial Assets:					
Cash and Cash Equivalents	32	-	67	4	103
Short-term Deposit	102	-	-	-	102
Trade Receivables	115	-	1,629	199	1,943
Other Accounts Receivable	114	-	-	-	114
Financial Liabilities:					
Short-term Bank Credit	309	-	-	-	309
Trade Payables	1,481	-	659	27	2,167
Other Accounts Payable	159	-	-	-	159
Shareholders	374	-	-	-	374
Long-term Loans From Banks	-	941	-	-	941
	2,686	941	2,355	230	6,212

	NIS		**U.S. Dollar**	**Euro**	**Total**
	Unlinked	**Variable Interest**	**Unlinked**		
Financial Assets:					
Cash and Cash Equivalents	(2)	-	50	1	49
Short-term Deposit	136	-	-	-	136
Trade Receivables	56	-	2,709	323	3,088
Other Accounts Receivable	-	-	403	-	403
Financial Liabilities:					
Short-term Bank Credit	(111)	-	-	-	(111)
Trade Payables	(2,972)	-	(404)	(11)	(3,387)
Other Accounts Payable	(249)	-	-	-	(249)
Shareholders	(151)	-	(8)	-	(159)
Long-term Loans From Banks	(299)	(588)	-	-	(887)

(3,592)	(588)	2,750	313	(1,117)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the NIS:

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2014	183	(183)
2013	192	(192)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the Euro:

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2014	11	(11)
2013	16	(16)

Analysis of Sensitivity to Changes in the Prime (Variable) Interest :

	5% Increase in Prime (Variable) Interest	5% Decrease in Prime (Variable) Interest
For the Year Ended December 31		
2014	-	-
2013	(29)	29

c. Fair value

The table below is a comparison between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value (other than those whose amortized cost is a reasonable approximation of fair values):

	Carrying amount		Fair value	
	December 31,		December 31,	
	2014	2013	2014	2013
Financial liabilities:				
Interest-bearing loans	941	887		852

NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Major customers' data as a percentage of total sales to unaffiliated customers:

	Year Ended December 31,		
	2014	2013	2012
Customer A	12%	14%	15%
Customer B	12%	11%	12%
Customer C	9%	11%	0%

b. Breakdown of Consolidated Sales to unaffiliated Customers according to

Geographic Regions:

	Year Ended December 31, 2014	2013	2012
Latin America	24%	15%	46%
Europe	12%	37%	18%
Africa	20%	30%	10%
Asia	33%	10%	20%
Middle East	11%	8%	6%
Total	100%	100%	100%

c. As of December 31, 2014: $ 2,007 thousand of the consolidated depreciated assets are located in Israel and $ 700 thousand in Jersey.

As of December 31, 2013: $1,549 thousand of the consolidated depreciated assets are located in Israel and $724 thousand in Jersey.

NOTE 21 - SEGMENTATION REPORTING

The Group has four main reportable segments, as detailed below:
Reported operating segments include: sets, accessory, web and other.
For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis.
There are no inter-segment sales. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before financial expenses and tax is included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Segment information regarding the reported segments:

	Sets	Web	Accessory	Other	Total
Year Ended 31.12.2014:					
Segment revenues	3,276	1,504	48	177	5,005
Cost of sales	(2,370)	(66)	(24)	(39)	(2,499)
Gross profit (loss)	906	1,438	24	138	2,506
Research and Development expenses	(228)	(25)	-	-	(253)
Selling and marketing expenses	(687)	-	-	-	(687)
Operating profit (loss) before general and administrative expenses	(9)	1,413	24	138	1,566
Unattributed general and administrative expenses					(4.251)
					(2,685)
Year Ended 31.12.2013:					
Segment revenues	4,126	1,478	100	140	5,844
Cost of sales	(2,998)	(142)	(170)	(191)	(3,501)
Gross profit	1,128	1,336	(70)	(51)	2,343
Research and Development expenses	(106)	(46)	-	-	(152)
Selling and marketing expenses	(758)	-	-	-	(758)
Operating profit before general and administrative expenses	264	1,290	(70)	(51)	1,433

Unattributed general and administrative expenses					(2,325)
					(892)

For further information please contact:

Starcom plc	**Northland Capital (Nomad)**	**Northland Capital (Broking)**	**Leander (Financial PR)**
Michael Rosenberg Avi Hartmann Eitan Yanuv	Edward Hutton David Hignell	John Howes	Christian Taylor-Wilkinson
Tel: 07785 727595 +972 543070103 +372 813 93631	Tel: 020 7382 1100	Tel: 020 7382 1100	Tel: 07795 168 157

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